



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	SB0356	Title:	Tax credit for repayment of student college loans
Primary Sponsor:	Brueggeman, John	Status:	As Introduced

- | | | |
|---|---|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
Expenditures:				
General Fund	\$0	\$2,500	\$0	\$0
Revenue:				
General Fund	\$0	(\$1,626,000)	(\$3,171,000)	(\$4,347,000)
Net Impact-General Fund Balance:	<u>\$0</u>	<u>(\$1,628,500)</u>	<u>(\$3,171,000)</u>	<u>(\$4,347,000)</u>

Description of fiscal impact:

This bill would allow taxpayers who receive an associate or bachelor's degree from a Montana college or university to take a credit of up to \$500 against their individual income tax liability for the amount of student loans they repay each year.

FISCAL ANALYSIS

Assumptions:

1. This bill would allow taxpayers who receive an associate or bachelor's degree from a Montana college or university after December 31, 2006 and who have student loans, to claim a credit against their individual income tax for the amount of student loans repaid in a year, up to \$500. A taxpayer could claim credits in up to two years for repayments on loans to finance an associate degree and up to four years for repayments on loans to finance a bachelor's degree. A taxpayer may take the credit a total of four times. The first year when the credit could be claimed would be 2008.
2. In 2005, Montana colleges and universities awarded 1,782 associate degrees and 5,177 bachelor's degrees (National Center for Educational Statistics, US Department of Education). It is assumed that the same number of degrees will be awarded each year from 2007 through 2010.

3. Of resident students who graduated from units of the Montana University System in 2005, 72.5% who received an associate degree had student loans and 71.9% who received a bachelor's degree had student loans. The average debts were \$13,906 for an associate degree and \$20,590 for a bachelor's degree (Office of Commissioner of Higher Education). It is assumed that these percentages and amounts will be the same each year from 2007 through 2010 and apply to all Montana colleges and universities.
4. Graduates with the debts in assumption 3 will pay more than \$500 per year on the principle of their loans. Therefore, all taxpayers who take the credit will claim the maximum amount of \$500.
5. A survey of Montana University System graduates in 2002 and 2003 found that 70% remained in the state. It is assumed that this percentage will hold for all graduates of Montana colleges and universities in 2007 through 2010 and that 70% of bachelors degree graduates with student loans will begin paying on them the year after graduation. Some associate degree graduates will continue on to work toward a bachelor's degree and will defer their loan payments until they receive their bachelor's. It is assumed that 50% of associate degree graduates will begin paying on their loans the year after graduation.
6. It is assumed that 5% of taxpayers claiming the credit in any year move out of the state and do not claim the credit the next year.
7. For tax year 2008, 646 associate degree graduates ($50\% \times 72.5\% \times 1,782$) and 2,606 bachelor's degree graduates ($70\% \times 71.9\% \times 5,177$) who received degrees in 2007 will each claim a \$500 credit on their returns filed in the spring of FY 2009. The total amount of credit and revenue reduction in FY 2009 will be \$1,626,000 ($\$500 \times (646 + 2,606)$).
8. For tax year 2009, 646 new 2008 associate degree graduates and 2,606 new 2008 bachelor's degree graduates will claim credits of \$1,626,000 and 95% of the 2007 graduates who claimed credits for tax year 2008 will claim credits of \$1,545,000 ($\$500 \times 95\% \times (646 + 2,606)$). The total revenue reduction in FY 2010 will be \$3,171,000 ($\$1,626,000 + \$1,545,000$).
9. For tax year 2010, 646 new 2009 associate degree graduates and 2,606 new 2009 bachelor's degree graduates will claim credits of \$1,626,000, and 95% of the 2008 graduates who claimed credits for tax year 2009 will claim credits of \$1,545,000. The 2007 associate degree graduates will no longer be able to claim the credit, but 2007 bachelor's degree graduates will claim \$1,176,000 in credits ($\$500 \times 95\% \times 95\% \times 2,606$). The total revenue reduction in FY 2011 will be \$4,347,000 ($\$1,626,000 + \$1,545,000 + \$1,176,000$).
10. The Department of Revenue will need to develop a new form for taxpayers to claim this credit. Operating costs would be \$2,500 in FY 2009.

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
<u>Fiscal Impact:</u>				
FTE	0.00	0.00	0.00	0.00
<u>Expenditures:</u>				
Personal Services	\$0	\$0	\$0	\$0
Operating Expenses	<u>\$0</u>	<u>\$2,500</u>	<u>\$0</u>	<u>\$0</u>
TOTAL Expenditures	<u><u>\$0</u></u>	<u><u>\$2,500</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>
<u>Funding of Expenditures:</u>				
General Fund (01)	<u>\$0</u>	<u>\$2,500</u>	<u>\$0</u>	<u>\$0</u>
TOTAL Funding of Exp.	<u><u>\$0</u></u>	<u><u>\$2,500</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>
<u>Revenues:</u>				
General Fund (01)	<u>\$0</u>	<u>(\$1,626,000)</u>	<u>(\$3,171,000)</u>	<u>(\$4,347,000)</u>
TOTAL Revenues	<u><u>\$0</u></u>	<u><u>(\$1,626,000)</u></u>	<u><u>(\$3,171,000)</u></u>	<u><u>(\$4,347,000)</u></u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	(\$1,628,500)	(\$3,171,000)	(\$4,347,000)

Effect on County or Other Local Revenues or Expenditures:

1. None

Long-Range Impacts:

1. For tax year 2011, 646 new 2010 associate degree graduates and 2,606 new 2010 bachelor's degree graduates will claim credits of \$1,626,000; 2009 graduates will claim credits of \$1,545,000; 2008 bachelor's degree graduates will claim \$1,176,000 in credits; and 2008 bachelor's degree graduates will claim \$1,117,000 in credits ($\$500 \times 95\% \times 95\% \times 2,606$). The total revenue reduction in FY 2012 will be \$5,464,000 ($\$1,626,000 + \$1,545,000 + \$1,176,000 + \$1,117,000$).
2. Revenue reductions in fiscal years after FY 2012 will be similar to the reduction for FY 2012, but may change over time depending on the number of new graduates and their debts.

Technical Notes:

1. Section 2 allows a credit "equal to the amount of the loan repaid" in a year. This fiscal note assumes that this phrase means repayment of loan principle, not total loan payments. However, this language would need to be clarified before this bill could be implemented. Many students take loans over the course of their studies and accumulate unpaid interest until they graduate and begin making payments. Lenders often show initial payments as all interest as borrowers pay down the unpaid interest balance. It is not clear whether these payments would be eligible for the credit.
2. Section 2(7) required the Department of Revenue, in consultation with the Montana guaranteed student loan program, to develop procedures to monitor student loan payments made by a taxpayer claiming a credit. The purpose of this monitoring is not clear. Is it to verify eligibility for the credit, to verify that taxpayers who have used the credit continue to make payments, or for some other purpose? For how long is the department to monitor payments?

Sponsor's Initials

Date

Budget Director's Initials

Date